UNIVERSITY OF ILLINOIS

1 May 19 88

THIS IS TO CERTIFY THAT THE THESIS PREPARED UNDER MY SUPERVISION BY

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ENTITLED Power, Wealth and International Politics

IS APPROVED BY ME AS FULFILLING THIS PART OF THE REQUIREMENTS FOR THE

DEGREE OF Bachelor of Arts

in Liberal Arts and Sciences

Instructor in Charge

APPROVED:

HEAD OF DEPARTMENT OF Political Science

POWER, WEALTH, AND INTERNATIONAL POLITICS

BY

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THESIS

for the

DEGREE OF BACHELOR OF ARTS

IN

LIBERAL ARTS AND SCIENCES

College of Liberal Arts and Sciences

University of Illinois

Urbana, Illinois

1988

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1. Introduction

There are traditionally two major views of the relationship between power and wealth in the foreign policies of nation-states. The mercantilist view places the state at the center of analysis, and the pursuit of power in its various forms is held to be the main goal of the state. Wealth is but another form of power. It is a prerequisite for most other forms of power, and is most effective when used in conjunction with the other forms. As a form of power, wealth is useful in itself, and the competition to gain it is also a contest of power. The classical liberal view regards the individual as the center of analysis. The pursuit of wealth is the central goal of individuals. The state provides a few important services such as defense, the enforcement of contracts, and the maintenance of orderly markets, but otherwise interferes as little as possible with individual freedom. Free trade is the ideal in the international as well as the domestic economy. Power is an evil that interferes with the pursuit of wealth, and it can be eliminated with free market institutions. Free markets enhance international peace as well as domestic peace.

It is this assumption of a natural harmony of interests that makes the liberal doctrine so out of touch with reality. A growing body of literature has begun to challenge the neoclassical assumption of a natural harmony of interests and its insistence that power has no place in the study of economics. E. H. Carr long ago demonstrated that the liberal doctrine of a natural harmony of interests was merely special interest by another name.[1] This should be self evident when we remember that the central economic question is the allocation of scarce resources among alternate uses. If resources are scarce, whoever possesses more has a greater ability to achieve goals, and therefore greater power. Wealth itself is a form of power, and it is exercised through market institutions.

The thesis of this paper is that the general mercantilist conception of the relation between wealth and power is still valid today. This conception can be adapted to analyze the relationship between economic power and political power in the current international system.

2. The Liberal View

Origins

The idea that economic questions should be separated from political questions originated around 1800 with the classical school of economics. The thesis of the liberal doctrine is that economic power does not exist in a capitalist market economy, either on the national or international scale, as long as governments proscribe monopolies. There is a natural harmony of interests. This holds true in a liberal international trading economy as well as in a domestic one. Deviations from free markets will hurt the instigators as much as the intended target. The liberal doctrine originated with Adam Smith's assertion that the pursuit of individual self interest by all people in society would result in mutual gains for everybody through the invisible hand of the market. Thus, the evils of power politics would be banned from domestic society. Public welfare would be maximized by a free enterprise system, untained by power or conflict. Capitalist society would uphold individual freedom, which Mill saw as the paramount political value. The role of governments would be limited to the maintenance of orderly markets, enforcement contracts, and defense of the state.

It was hoped that these ideas could be extended to the international sphere. War, the liberals was believed, was caused by states that persisted in seeing their primary, if not only, goals as being the maximization of power. The pursuit of this power could only lead to foreign military adventures which would have to be paid for by taxes, which would only lower wealth. Richard Cobden was a leading proponent of the idea that increasing interdependence through trade would lead to greater peace and harmony among states, although this school was not so simplistic as to believe a liberal system would be a sufficient condition to end all war and bring perpetual peace.

The post 1945 world system can be seen as divided into two economic blocs, the liberal Western bloc and the communist Eastern bloc. Most economists probably would not deny the existence of economic power in relations between the two blocs. The West has always restricted trade to prevent the Soviets from gaining access to military technology. The Western system, however, was to be a liberal one, analyzed with traditional economic models, in which economic power in theory was banned by assumption. Charles Kindleberger's Power and Money is a welcome exception to this trend, but his elementary classification lacks a systematic framework for analysing between the different instruments of power and their relationship to different goals.[2]

Indeed, postwar American policymakers were remarkably successful in creating an international economy that was generally open to penetration by American and European multinational corporations, assured US access to world markets, and that generally replaced the discriminatory system of imperial preferences with a multilateral and less discriminatory system, and replaced sterling and other currencies with the dollar as the main reserve currency.

While the policies and public justifications were liberal, the intent and effect were mercantilistic in the sense that the new system was designed to serve US interests. The fact that others also benefited was not an accident, a side-effect or simple altruism. World recovery and growth were major objectives of the new system. They were felt to be necessary for US economic prosperity and to serve as counterweights to the Soviet Union. Critics of liberalism were right to point out that its primary beneficiary would be the dominant economic power. They were wrong, however, to imply that others would not receive any benefits from liberalism.

A Recent Interpretation

The persistent flaw permeating classical liberal thought and its derivatives is the failure to recognize the existence of power relationships within economic relations, and more importantly, the importance of military and political power in maintaining economic institutions.

Richard Rosencrance represents the one of the latest reincarnations of the liberal hope. He tries to build a "dualistic" approach to international relations, dividing states into the "military-political world" and the "trading world." The former "rely primarily on military force and only incidentally engage in trade," which is "an economic palliative between the territorial wars that truly determine a nation's fate." The latter "make their livelihood in trade and use defense only against the most remote contingencies . . . trade and internal development are primary and defense a tactical measure to reduce another state's temptation to strike."[3] His hope is that the old classical liberal world can still be achieved: "the main thesis of this book is that a new "trading world" of international relations offers the possibility of escaping such a vicious cycle [of conflict] and finding new patterns of cooperation among nation states. Indeed, it suggests that the benefit of trade and cooperation today greatly exceeds that of military competition and territorial aggrandizement."[4] A main feature that distinguishes Rosecrance from his Cobdenite predecessors is a greater realism regarding the prospects that a "trading world" will come about. He recognizes the pressures that induce states to follow a "military-political" strategy will continue to exist for a long time to come. Yet he is still optimistic that world conditions are making a trading strategy more and more attractive.

Rosecrance has two contradictory descriptions of the trading strategy. He describes a trading world as offering the possibility of escaping the vicious cycle of war and "finding new patterns of cooperation among nation-states."[5] Yet he describes the trading strategy, using "mechanisms of industrial-technological development and international trade," as a way that "nations can transform their positions in international politics . . . while other states also benefit from the enhanced trade and growth that economic cooperation makes possible."[6] The phrase "position in international politics" cannot be anything but a euphemism for power, whether Rosecrance realized it or not. Position, moreover implies relativity -- one country gains a more powerful position only in comparison with another. Other countries may certainly benefit from enhanced trade and growth, but all countries will not benefit at the same rate. If there is anything constant about capitalism, it is that relative growth rates of countries are always uneven and changing.

The idea that power is negligible if not entirely absent from economic relations, and the derivative notion that economics embodies cooperation and politics embodies strife, are typical of liberal thinking and permeate Rosecrance's analysis. To most, it should be self-evident that politics can embody cooperation in the form of alliances against a common enemy, and economics can embody strife as exemplified in trade wars and Western domination of the IMF to ensure their own control over international finance.

Rosecrance's idea that "the theory of international exchange and trade gives a basis for mutual cooperation and mutual benefit"[7] is but another version of the doctrine of a natural harmony of interests, and the failure to see power relationships in economics.

This is closely related to Rosecrance's subscription to the Peace through Trade fallacy: "If national policies of economic growth depend upon an expanding world market, one country can hardly expect to rely primarily upon territorial aggression and aggrandizement. To attack one's best customers is to undermine the commercial faith and reciprocity in which exchange takes place."[8] Rosecrance explains that a lack of interpendence is the main reason why "world history is mainly a narrative of territorial and military expansion [and] unending war."[9]

This is simply not true. Hitler was highly dependent on the Soviet Union for natural resources before he invaded in 1941. In the 1930's Japan was busy conquering its main Asian trading partners, and it launched a surprise attack on one of its major oil suppliers on December 7, 1941. Nicaraqua continues to antagonize the US despite sanctions which have proved extremely costly for Nicaraqua. Cuba has accepted the enormous loss of economic opportunities resulting from their failure to come to terms with the US. The black African states long supported a guerrilla campaign against the South African government. Destruction of economic infrastructure is a favorite tactic of the Salvadoran guerrillas. One of the lessons here is that there are different degrees of dependence. Moreover, weak states can gain powerful benefactors.

Also, a country with a sufficient military advantage can occupy its trading partner by force.

Here is another example of his failure to see power inherent in economics: "If the Soviet Union would modify its past territorial orientations and adopt reliable policies of exchange and trade with other nations, the prospects for peace in the last years of the twentieth century would be greatly enhanced."[10]

This exposes another fallacy -- the idea that peace is the absence of war. Under this definition, the Arab Israeli dispute could be ended tomorrow if all of the Jews willingly left Palestine. The US-Nicaraguan conflict would end tomorrow if the Sandinistas voluntarily relinquished power. There would be peace in South Africa tomorrow if the blacks quietly accepted their second class status. The US Soviet conflict could be ended tomorrow if the US government, with the support of its people, gave the Soviet politburo sovereign authority to make laws in the US. Real peace requires, in addition to an absence of war, that the main interests of all the parties in a conflict be upheld. These examples should be sufficient to illustrate that the notion of peace as the absence of war is simply out of touch with reality.

Rosecrance sees Japan and West Germany at the center of the trading system. "Today," Rosecrance notes, "West Germany and Japan use international trade to acquire the very raw materials and oil that they aimed to conquer by military force in the 1930's. They have prospered in peaceful consequence."[11] Rosecrance argues that Japan would never follow the US model and become the world's biggest military and naval power. Instead, the US (hopefully, in his opinion) might follow the Japanese model.[12] This fails to recognize that the only reason Japan can pursue this strategy is because of the American security umbrella. Were it withdrawn and/or US markets closed to Japanese products, Japan would have to become a military power, and possibly return to a policy similar to the Greater East Asian Co-Prosperity Sphere involving military force to ensure access to markets and raw materials. Rosecrance's work is permeated by the failure to see that military power is necessary to uphold economic power.

Rosecrance's assertion that after 1945 "large-scale territorial expansion began to evolve as too costly -- too dangerous and too uncertain as a general strategy of national advancement"[13] is undermined by the examples of the wars between Vietnam and Cambodia, Ethiopia and Somalia, Libya and Chad, Iran and Iraq, the Soviet Union Afghanistan, the Sahara War, the India-China War, and the Indo-Pakistani wars.

By concentrating on relations between Rosecrance misses the fact that much conflict consists of civil wars, not interstate wars.

Rosecrance asserts "the attempt to maximize both trading and military-political possibilities has failed throughout history, and, since Rome, hegemony has never been won by any state."[14] This analysis has two weaknesses. His statement is true enough for world hegemony, but there have been a number of relatively recent regional hegemons, such as the US in the Western Hemisphere, the Soviet Union in East Europe, South Africa in southern Africa, Vietnam in Indochina. India is fast becoming a regional hegemon in South

Asia.[15] Somewhat more distant historical examples include the building of modern nation states, such as the Prussian domination of Germany in the nineteenth century. A more important problem for Rosecrance is the failure of the aspiring "world" hegemons such as Napoleon and Hitler was due to the opposing military power of their opponents. Furthermore, the conquests they were able to make were made possible by the fact that their opponents failed to build up sufficient military strength to protect themselves. France would have been just as badly off or even weaker had it pursued a "trading" strategy in 1914 and 1939 instead of a military strategy.

Rosecrance [qualifies his argument by noting] that "if most states were to rely exclusively on trading methods, the few that specialized in military and territorial expansion would make great gains at the former's expense. . . . The difference between states is that some rely primarily on military force and only incidentally engage in trade; others make their livelihood in trade and use defense only against the most remote contingencies. For the first, trade is an economic palliative between the territorial wars that truly determine a nation's fate; for the second, trade and internal development are primary and defense a tactical measure to reduce another's temptation to strike."[16] This, however, still seems too simplistic. It still ignores the fact that a trading system requires some military-political equilibrium such as the Concert of Europe, Pax Britannica or Pax Americana, or some other system which more or less assures the territorial and political integrity of at least the major states in the system. Otherwise the struggle for security would dominate the energies of the states, and the system could evolve into a system of self-sufficient trading blocs as was becoming the pattern in the years prior to World War II. A better theory would outline the possible situations

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3. The Mercantilist View

The idea that wealth and power are but two sides of the same coin is probably as old as wealth itself. Embodied in the provision of weapons and logistical support for fleets and armies, wealth has always been in integral part of political power. The mercantilist theories of the seventeenth and eighteenth centuries only adapted these ideas to the circumstances of the new and rising nation-states of the period. Jacob Viner, disputing the stereotype of mercantilism as subordinating the goal of wealth to the central goal of power [neatly contrasting the opposite liberal view that power should be subordinated to plenty], enumerates the four principles of mercantilism:

> 1. Wealth is an absolutely essential means to power, whether for security or for aggression;
> 2. Power is essential or valuable as a means to the acquisition or retention of wealth;
> 3. Wealth and power are each proper ultimate ends of national policy;
> 4. There is a long run harmony between these ends, although in particular circumstances it may be necessary for a time to make economic sacrifices in the interest of military security and therefore also of long-run prosperity.[19]

The first two propositions are concerned with means, and the second two propositions are concerned with ends.

These ideas have been at the root of the foreign policies of all the Great Powers since the early days of the nation-state. They formed the basis for the bids for hegemony by Philip II, Colbert, Imperial Germany, Hitler's

Germany, Imperial Japan, and the Soviet Union. They also formed the basis for Britain's victory in the long struggle to prevent French domination of the continent, culminating in the Grand Coalition against Napoleon, as well as its attempt to salvage its declining economic position in the 1930's.

The common view fostered by conventional economics that mercantilism is merely a set of protectionist policy prescriptions is no more than an incomplete and misleading caricature. This picture refers to a set of policies appropriate to a time when the international system was very different. Countries now have more sophisticated policies to advance national economic interests such as subsidies, favorable credit terms, and other policy instruments. The German economist Friedrich List explained how free trade policies benefited the strong at the expense of the weak.[20] Free trade, then, would be pursued by a mercantilist state as long as free trade served its interests. The US and Great Britain are the classic examples. Mercantilism is a set of ideas regarding the relation between wealth, power, and the state.

Mahan's work on the importance of sea power was firmly grounded in the unity of wealth and power. Underlying the entire work is the presumption that wealth is the foundation of power: "The profound influence of sea commerce upon the wealth and strength of countries was clearly seen long before the true principles which governed its growth and prosperity were detected." Moreover, restrictive policies were needed "to secure to one's own people a disproportionate share of such benefits."[21] Mahan viewed overseas trade as the most critical form of wealth, and it followed that sea power was necessary to protect this wealth and the transportation network on which it depended. Sea power, in turn, was dependent on the economic base and corresponding infrastructure to sustain it.[22]

Halford Mackinder would have agreed with Mahan's implicit assumptions regarding the assumption that wealth is the foundation of power. The difference is that Mackinder believed that the ultimate beneficiaries of the new technologies would not be the maritime powers but the great land powers which would be opened by railroads.[23]

While the realist tradition in international relations that developed in the US after World War II kept the state and the concept of power at the center of analysis, economic power and the notion of wealth as the foundation of other instruments of power became obscured. Power was primarily identified with military strength. The fact that military power depended on a strong industrial base was recognized as an assumption but the problem was not widely analyzed. It is only recently that this has been a major subject for discussion and worry in the United States.[24] It was assumed that US military dominance would ensure that it would retain its influence over other facets of international politics. Power was assumed to be relatively fungible. The fact that the US economic dominance of the world seemed so overwhelming and permanent, and the assumption that economic problems would take care of themselves under free trade abroad and Keynsian demand management at home, probably contributed a great deal to this omission. The attempt to imitate the discipline of economics and create the nation-state equivalent of economic man resulted in a state whose goal was the maximization of power, just as the individual's goal was to maximize utility of consumption.

Cline takes this assumption that power is fungible and can be aggregated to its limits, and constructs an aggregative index of power. Unlike the traditional analysis, it has the merit of considering a wide range of economic and other factors along with military power.[25] Its greatest weakness lies in its greatest strength, however. Baldwin notes that Cline's work represents "the polar opposite of the type of contextual analysis advocated by the Sprouts and Lasswell and Kaplan."[26] Since it does not analyze power in specific contexts, it will be subject to what Baldwin calls the "paradox of unrealized power": How the weak manage to influence the strong.[27]

Cline is to be commended for recognizing that strategy and will are integral to the problem of the analysis of power. His methodology and conclusions, however, leave much to be desired. He defines strategy at the national level as "the part of the political decision-making process that conceptualizes and establishes goals and objectives designed to p otect and enhance national interests in the international environment." National will is "the degree of resolve that can be mobilized among the citizens of a nation in support of governmental decisions above defense and foreign policy."[28] No quarrel can be made with these definitions. His conclusion that US policy has been confused and awkward since the mid 1960's is debatable, although it contains a degree of truth. Yet it is even more invalid to postulate an aggregate of coherence of strategy than an general aggregate of power. Coherence of strategy and ability to build a consensus around policy seems to be highly dependent on context. It is true the US was unable to maintain a consensus on Vietnam. Yet over the long run, there has emerged a consensus for other policies such as arms control and individual military operations such as Grenada and the Libyan bombing. Cline also fails to recognize that changing international circumstances and power relationships and the fact that the impact of these changes is often unclear will necessarily require a reevaluation of interests and strategy, over which there might be legitimate disagreement. In the case of a clear cut confrontation with the Soviet Union, which is probably the only context in which such an aggregate measure of power might have some degree of utility, it is likely that a sense of national emergency would produce a higher degree of coherence and support for government policy. Moreover, the implicit Soviet Aggression in such a conflict might undermine the Soviet's ability to mobilize the public opinion. The strategic coherence problem could be the result of a perceived ambiguity of Soviet intentions which produces different policy recommendations, rather than a fundamental incoherence.

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4. A Framework For The Analysis of Power

The general theoretical conception of the relation between wealth, power, and the state as ascribed to the mercantilists by Viner seems as appropriate today as it was in the Seventeenth century. What is needed is to reformulate the propositions in terms of today's international system, and update the policy prescriptions to include tools currently in use by governments. This paper will, however, concentrate on reformulating the propositions, not on the policy prescriptions for specific circumstances.

The absence of a satisfactory definition of power has been a major problem hindering the ability to adequately analyze the interrelationship between its economic and political components. The conventional definition of power as the ability of A to get B to do something he otherwise would not do, or some variation of this, seems too restrictive and difficult to operationalize for the purpose of studying economic power and the economic foundations of other types of power. David Baldwin enumerates some conclusions of recent systematic studies on power, including power as a relational concept, the importance of positive as well as negative sanctions, that "power may rest on various basis, and no one form of power is basic to all the others," and the multidimensionality of power.[29] He also sees some major shortcomings in recent studies on power. There is "the tendency to exaggerate the fungibility of power resources . . . the propensity to treat military power resources as the 'ultimate' power base . . . and . . . emphasis on conflict and negative sanctions."[30] Baldwin advocates greater emphasis on context.[31]

It seems to me that we can define the broader concept of power as comprising three essential elements, while considering economic power a subset of these elements. This advantage of this definition is that it allows us to operationalize the analysis of economic power.

1. Ends: Individuals or groups attempt to influence outcomes in a social context. In this sense, power is the ability to achieve a goal. This can be with or against the will of others. Power is enhanced in the sense that the goal is achieved whether as a result of voluntary cooperation by the other party [if that party also found the goal to be in its interest] or through opposing another party. If everybody shares the same goals and interests, power will be a positive sum game. If goals and interests conflict, somebody either will lose, or will gain less. Power can be a zero sum or small sum game. Since the function of the economy is to allocate scarce resources among alternative uses, it is not necessarily a positive sum game. Certainly everybody may benefit to some degree, but some clearly benefit more than others, and what goes to one country is not available for another. Economic power is largely a function of inequality.

2. Means: The achievement of goals requires the use of instruments, tools, or resources. Weapons are the first example that comes to mind. Propaganda and manipulation of opinion are also important. For this paper, attention will be concentrated on economic resources such as money, the means of production, and natural resources. Time should also be considered, either in this category or in the next.

3. Medium: The utility of any partcular instrument of power depends on the context in which it is to be used. Tanks are not useful on water, and

ships are not useful on land. State power can be exercised through international organizations such as the NATO, the UN or the World Bank. In the economic arena, context is manifested in the various ways that market institutions are structured. In other words, the political arena determines the parameters of market behavior. National monetary and fiscal policies have a large impact on the economic climate. The Western industrial countries have much influence over the debt and deficit adjustment processes in developing nations through their domination of the IMF.

5. Unit of Analysis: The State

Susan Strange, among others, critizes the state centric nature of much of the analysis of power which leads to an "inevitable logic that limits all subsequent analysis to the conscious use of economic weapons by governments in relations with other governments."[32] This leads to an interpretation economic power "almost exclusively in the capacity either to coerce other states [aggressive economic power] or to defend the state against coercion by others [defensive economic power]."[33] This in turn implies acceptance of "the neoclassical assumption that power is unimportant in the politically vital key issue-areas of international investment, trade, and money." The result is to exclude from the analysis any exercise of market power that is not deliberately undertaken to weaken or coerce other states but only to secure income gains. Strange considers Klaus Knorr's work Power and Wealth to be a particularly egregious example of this variety of analysis.[34]

Strange suggests that "the greatest threat to the automony and integrity of states -- for some states and at some times -- may be, not the threat of external aggression by another state, but the subtle, silent, and insidious permeation of national societies by transnational actors," and credits writers like Nye and Keohane, Bergsten, Kaiser, Camps, Diebold, Calleo, Schmitt, and others for moving political analysis in this direction.[35]

The analysis presented here agrees with Strange's contentions that the analysis of power must go beyond coercion and must reject the neoclassical assumption that power is absent from economic relations. States certainly are vulnerable to some extent to transnational actors. Yet the state remains the fundamental political unit in the international system. It is the unit which most people expect to give them identity and maintain their interests with respect to the rest of the world. Only states have sovereignty, and they are the basic unit of policy. Corporations are subject in the final analysis to the political jurisdiction of states, and they do not command physical coercive power. International organizations such as the IMF, World Bank, and the UN are also subject to the control and influence by groups of governments. The primacy of states is not altered by the fact that these organizations impinge on the sovereignty of some countries because the decisions of these international organizations are made by a coalition of other governments. It is better to see these international organizations not as transnational actors in their own right but as political structures by which some states can influence the behavior of other states through coalitions with other like-minded states and through manipulations of the rules and structure of the organization.

The State is also the focus of nationalism and national ambitions, which seem as potent as ever. In the US, this is reflected in the recent spate of literature lamenting the decline in American relative power,[36] and protectionist pressures in Congress directed against Japan. In Japan, nationalism has been reflected in their strategy to attain economic leadership and directed by the senior bureaucrats and industrialists who fashion Japan's competitive economic strategy. The potency of nationalism is also evident in most regional disputes, including South Korea and North Korea, Thailand and Vietnam, India and Pakistan, Israel and the Arabs, and Nicaragua and the United States. Nationalism is also evident within countries, the the Basques, the Kurds, and the Tamils as only a few examples.

For these reasons this paper will concentrate on power from the perspective of the state.

6. Goals and Interests

The boundaries between the three elements in power are not always strictly defined, for the accumulation of the various instruments, to the extent that they can be accumulated, will always be intermediate goals of states. Most states build a stock of weapons and maintain standing armies. It has been generally established that one of the primary goals of states in modern times is the increased provision of economic prosperity to its citizens. This has been especially true in the industrialized West. Viner's distillation of mercantilist thought is still valid today: wealth and power are each proper ultimate ends of national policy, and there is a long run harmony between these ends, although sometimes it is necessary to sacrifice one for the other.

In terms of goals, W. W. Rostow, reviewing Kennedy's Rise and Fall of the Great Powers, divides states into two categories: those pursuing a hegemonic strategy or a balance of power policy.[37] These two orientations can be combined, depending on the circumstances. A country such as India can be a hegomonic power in a regional sense while pursuing a balance of power policy toward the rest of the world.[38] Vietnam for a while also had ambitions of becoming a regional power. Most small countries, however, do not have the option of choosing a hegemonic policy and must either latch themselves onto a bigger power that may or may not have hegemonic ambitions, or attempt to play the big powers off against each other while retaining their own freedom of action.

The pursuit of wealth itself is the major economic goal of states in order to increase consumption utility for its citizens, to gain more of the economic instruments of power, and to advance its non-economic interest in the international area. Membership in a market system given economic power [influence over outcomes] within the market that is denied to those not allowed to participate, or whose participation is restricted. Those who can influence the rules by which the market operates or its institutuional structures, or who beneift from the rules or structures have economic power. Product characteristics and conditions of product use, [e. g. perishability of foods] also given economic power to one or both sides of a transaction [if there are multiple conditions] regardless of whether they are inherent or susceptible to alteration by innovation. Finally, there are two things traded on markets, money and goods or services. There will be a positive relationship between a market participant's control over money [claims to wealth] and the means of production.

The optimum combination of wealth and power at a given time will depend on whether a country has hegemonic ambitions and, if a country does have ambitions, the combination will also depend on its strategy. It will also depend on whether it perceives hegemonic ambitions on the part of others in a position to threaten its interests. The US has maintained a certain level of armaments it thought necessary to contain the perceived Soviet threat.

The question of timing is critical. While economic power is more fungible than military power, military power can be used immediately while time is needed to convert wealth [instruments of economic power] to military equipment. In the short run, Germany and Japan won important military victories, but these were not sufficient to nullify the long run economic advantage of the allies. In guerrilla wars, military power is weaker. The ability of the other superpower to economically support the war efforts of the Afghan and Vietnamese guerrillas contributed to the defeat of the standing regimes. Military power might win quick victories, but economic help that could be converted to military power was available and capable of being utilized in the long term. In the case of El Salvador, the standing regime was more successful.

The timing is even more critical when the problem is a shortage of economic resources needed for conversion to military instruemnts, as was the case of Britain in the two World Wars. When the US entered World War I and granted a loan to Britain in 1917, the British had "perhaps no m· · than a month's funds in hand for transatlantic dealings."[39] The British position was worse in World War II. Rearmament in the late 1930's had to be delayed until the last possible moment. "If Britain rearmed too precipitately she might lack the economic strength to carry a war through to a successful conclusion; she might even be struck by an economic crises before a hypothetical war occurred, with fatal consequences to her foreign standing and to stability at home. There could be unpleasant economic consequences even if the defense programme successfully deterred Germany."[40] The timing of Hitler's invasion of Russia was determined in part by the calculation that Russia had to be invaded before it built up its army and its economy. Indeed, the timing of the start of Hitler's campaign in the West was in part motivated by the fear that Germany needed to strike before her rivals grew too strong.

During a time when a threat is not imminent, the level of armaments can be kept to low levels by a balance of power state. For example, a part of the US troops earmarked for NATO are stationed in the US while their equipment is stockpiled in Europe as a cost saving measure in peacetime. NATO only has a few weeks worth of supplies and ammunition. During a crisis when war seemed possible, preparations could be made for converting more economic resources into military resources.

The strategy of waiting to build up military forces while building up the economic capacity to produce them, however, is also a strategy that can be employed by hegemonic powers. Alan S. Milward argues that the popular perception that the German economy in the late 1930's was completely geared for war is simply wrong. Worried about domestic position, Hitler wanted the economy to be designed for short wars while maintaining the level of civilian consumption. "The files of the office of the Berlin President of Police were well stocked with fearful anticipations of the political unrest that would be caused by the negligible hardships of Germany's capital investment program."[41] As Milward puts it, Hitler wanted "guns and butter."[42] The idea of the Blitzkreig was of a series of short wars geared to short but intensive bursts of economic effort. Given a situation in which only a certain unchanging sector of the economy was consecrated to war production purposes it would be necessary to change the composition of the output of this sector according to the war to be fought. The attack on France was preceded by an abnormally heavy production of vehicles and mobile armour, that on Britain by an increased production of naval equipment and aeroplanes. The attack on Russia was preceded by an all-out production effort in the field of general army equipment. None of these increases in output involved an overall increase in the output of that sector of the economy committed to war production. Each increase was achieved by throttling back into other, no longer wanted, branches of armaments production."[43] The allies were thus surprised by the increase in German war production after 1942 when the German economy became mobilized for total war.

The ease with which economic resources can be converted to military resources is also critical, and this will have some bearing on the optimum balance between wealth and armaments. An extended discussion of this problem, however, is beyond the scope of this paper.[44]

7. Instruments and Context

Any instrument of power has some quality which allows it to be used to attain a goal. The instruments of power available to the nation-state can be classified into six main categories: Wealth, military, quantity of population, geography, leadership, and domestic cohesion. These roughly correspond with the main elements discerned by Cline, but there are differences in definition. Domestic cohesion is much more than the willingness to support foreign policy. It also includes the popular perception of the regime's legitimacy. Serious disagreement on the legitimate norms of domestic political can easily lead to civil war as demonstrated by South Africa, Iran, Nicaragua, and El Salvador. Afghanistan will join this list when the Soviets leave. This also greatly weakens a country's foreign policy. Diplomatic skill should be included under strategy. Clever diplomacy can in certain circumstances make up for weaknesses in other areas, whereas clumsy bargaining can undermine a strong position.

Institutions and frameworks are critical elements that Cline and others leave out when enumerating the components of military and economic power. Alliances are a critical component of military strength. A country with other levers of influence can use the institutions of the alliance to redistribute costs and benefits. The US is considering using its influence in NATO to force the Europeans to bear a greater share of the economic cost. The Soviet Union uses the Warsaw Pact alliance as much to maintain its control over East Europe and give it an excuse for maintaining troops there as it does to defend against NATO.

Likewise, economic institutions and market parameters are an important part of economic power. Money and its regulation by national central banks and the IMF help determine the availability of credit. GATT is a forum for trade negotiations. The OPEC cartel exercise some influence over the oil market. The slopes of demand and supply curves can give entities varying degrees of economic power.

The fuzziness of the boundaries between the categories extends to the second two elements of power,, means and medium. Raw instruments such as money, productive capacity, or weapons can be used to create institutional frameworks. Institutional frameworks can in turn be manipulated to alter the production or distribution of raw instruments, especially of the economic variety.

Military Instruments and Context

This paper is not concerned with developing an index of military power or a comprehensive analysis of all of the different contexts in which may affect the utility of the various different military instruments of power. Instead, the object is to examine how general military power interacts with the economic instruments to maintain overall state power.

It is instructive that Rosecrance's "historic hegemonic pretenders" [Philip II, Louis XIV, and Napoleon] correspond to whose who tried to implement a hybrid strategy combining the trading and military-political strategies.[45] Britain, he says came close to establishing a "lesser version" by avoiding continental military commitments. Yet, this commercial dominance came after Britain had defeated its French contender militarily, established its navy as the supreme arbiter of the high seas, and established the Concert of Europe to restrain France and smooth European diplomatic problems with a minimum expenditure of British effort.

The important thing military power has done for Britain and the US, the latest two dominant powers, was to provide a political framework under which normal economic relations can flourish.

The US formula for economic and military preeminence is unique. Direct political controls were eschewed in favor of a relatively liberal trading system with multilateral trade arrangements if not the elimination of tariffs, and access by US and West European multinational corporations to foreign markets. The absence of direct political controls meant that the US did not represent a threat to the territorial integrity of small states, while economic penetration gave access to these countries' resources and politics.

Economic Instruments and Context

Economic power has unique properties with respect to the third category, context, which require additional explanation. The first point is that the economic instruments of power are least dependent on context of all the other elements, and this is due to the social institution of money, and the various degrees of relative ease with which other economic instruments of power besides money can be converted to it. This property of the instruments of economic power is called fungibility. Without money, there would be a barter economy, and an example stating that cloth cannot be eaten and wheat cannot be worn could have been substituted for the Rouble example above. The institution of money enables a country to trade one for the other more easily. The second point is that the fungibility of the economic instruments of power is circumscribed by market institutions.

The instruments of economic power can be classified into three categories: money, the means of production, and natural resources. Land and geography should also be included here, although they can be subsumed under the latter two categories. These instruments are commonly referred to as wealth. There is no need to join the debate over whether the mercantilists confused money with wealth. Real wealth obviously consists of the means of production, natural resources, and unconsumed goods. Money, however, represents a claim on wealth. Equally, important, it serves as a "link between the present and the future."[46] Paul Davidson calls it a "one-way machine."[47] Therefore, it must be classified as wealth. Money and the means of production may also be considered as market institutions in their own right, but here they will be separated analytically from the institution category of power, by treating the three instruments of economic power as the object of regulation by market institutions. To an ordinary person uneducated in the intricacies of economic theory, it is self-evident that a person or country who possesses more money or more means of production has economic power. Money commands resources, and the more a country has, the more resources it can command on world markets. This is obvious to all but the discipline if conventional economics, where power is assumed not to exist; the invisible hand of the market ensures Pareto optimality.

Institutions are also provide important means to influence economic outcomes or be influenced by larger countries. Susan Strange delineates four levels at which economic power is exercised in the international system.

First, the structure of demand and consumption and other decisions made in the rich economies determine world patterns of investment, trade, production, and consumption. Second, governments after bargaining erect a framework of "minimum rules for the maintenance of stability and order." These include the IMF, Gatt, etc. The largest and most economically powerful states are the most influential in this process. Third, is "the formulation of national rules governing access to factors of production, credit and markets, and other fundamental questions affecting economic enterprise and economic transactions. As before, the national government with the largest domestic market and which is the home state for the largest number of multinational enterprises responsible for global strategies of production will exercise the greatest economic power." Fourth, "economic power is exercised at the operational level on both sides of every actual economic transaction, by buyers and sellers, creditors and debtors."[48]

It is important to note that adoption of this mercantilistic outlook on power and wealth does not necessitate the adoption of the traditional mercantilist policy tools. A liberal trading policy is effective in advancing the interests of the more powerful states. Moreover, countries have developed other tools besides the old crude methods of tariffs and quotas to maintain competitiveness and minimize trade adjustment problems. Also this does not mean laissez faire. More effective policy tools include selective tax breaks, government subsidies to research, infrastructure, and selected industries, patent laws, and monetary and fiscal policy.

Conclusion

What then, can be concluded about the relative importance of wealth and power for the nation-state? The thesis of Paul Kennedy's recent work implies an economic determinism: "there exists a dynamic for change, driven chiefly by economic and technological developments, which then impact upon social structures, political systems, military power, and the position of individual states and empires." This dynamic is driven by economics: "all of the major shifts in the world's military-power balances have followed alterations in the productive balances; . . . [in] the major Great Power wars, . . . victory has always gone to the side with the greatest material resources."[49] The conventional wisdom, in contrast, tends to "treat military power resources as the 'ultimate' power base."[50] The mercantilist position that wealth is absolutely essential to political-military power and that political-military power is essential to get wealth still seems to be the best conclusion.

Certainly wealth as a form of power is a unique because of its high degree of fungibility. It is the source of most other forms of power. Military equipment and personnel cannot be obtained without it, a large population cannot be sustained without it. It provides a basis for economic sanctions, and enables wars to be financed. More wealth leads to greater domestic political stability. Moreover, aside from population, it is the only form of power that can reproduce itself. It is the fountain of economic growth and technological advance.

Yet military power is also unique because of its unparalleled capacity for coercion that economic power is not capable of attaining. The smooth operation of any trading system, whether it be the internal market of a relatively self-sufficient bloc as Japan tried to be before World War II or the liberal trading system of the postwar period requires some political equilibrium or loose hegemony in the international system or military protection of the self-sufficient state or liberal trading system. The trading fortunes of Japan and Europe were made possible by the military might of the pax Americana.

The answer is that both military and economic components of power are necessary to adequately maintain a state's interests. A state unable to command much military power on its own will be forced to associate with a state which is able to provide a military umbrella, as are Europe and Japan. The stronger countries able to command more of the military instruments of power must carefully watch international circumstances to maintain the proper balance. It is theoretically within the realm of possibility that a trading world that Rosecrance envisions may someday come about, but it is hard to imagine this without postulating some overarching political force that inhibits territorial or political rivalry, much as a national police force maintains domestic order and prevents the domestic polity from degenerating into a Hobbesian state of nature which still lies beneath the surface of the regimes, institutions and structures painstakingly agreed upon by nations or regulate certain areas of their affairs. The state of nature will never be entirely gone until national sovereignty is replaced by a central authority.

APPENDIX:

ECONOMIC POWER AND THE PURSUIT OF ECONOMIC GOALS

The contextual analysis of military power has been studied extensively by military strategists who answer the question of what kinds of military power are useful in which situations. This kind of contextual perspective for economic power is lacking, in large part because economists have long rejected the idea that power is present in economics. This appendix is intended to make a start at filling that gap.

1. Economic Instruments of Power

The instruments of economic power can be classified into three categories: money, the means of production, and natural resources. Land and geography should also be included here, although they can be subsumed under the latter two categories. These instruments are commonly referred to as wealth. There is no need to join the debate over whether the mercantilists confused money with wealth. Real wealth obviously consists of the means of production, natural resources, and unconsumed goods. Money, however, represents a claim on wealth. Equally, important, it serves as a "link between the present and the future."[51] Paul Davidson calls it a "one-way time machine."[52] Therefore, it must be classified as wealth. Money and the means of production may also be considered as market institutions in their own right, but here they will be separated analytically from the institution category of power, by treating the three instruments of economic power as the object of regulation by market institutions.

2. Beginnings of a Market System

The mere commencement of a market results in change in distribution of power. The transition from feudalism is a classic example. Under feudalism, the barons had the largest share of economic power. They controlled the primary means of production, land and serfs. The serfs were bound to them by law. These economic parameters could not be changed [short of a political revolution] except by the barons and the king. With widespread use of money and establishment of the market and wage labor, [along with political revolution] the economic power of the barons was crushed. The natural historical tendency is for economics and wealth to be regulated by coercive power. The advent of the liberal system saw the bourgeoisie classes gaining control of the coercive instruments of the state. They instituted free markets and wage labor in order to undermine the economic and political power that remained to the feudal classes, and to enhance their own control.

The nature of economic power relationships in one sense is fundamentally different in market economies and non-market economies. Economic control is more direct, immediate, and coercive in non-market economies, but these types of systems are difficult to extend without coercive power. The market, on the other hand, greatly expands the extent of influence. Through it, events in the US can directly affect events all over the world, a feat which would not be possible under a non-market economy. Economic changes in the Soviet Union, in contrast, have negligible effect on the rest of the world economy. Yet market power is much more indirect and diffuse; it is difficult and costly for political authorities to impose their will by fiat. For the dominant economic power, the market provides a means to widen the extent of influence by sacrificing immediacy of control.

3. Power Within the Market

General

One of the simplest manifestations of economic power is the fact that the nation or multinational corporation with more money or resources to trade will be able to command more goods on the international market. A business with more money has more power. As Susan Strange puts it, "the wealthiest consumers exercise the most 'votes' in a market economy."[53] The ability to purchase a good or service represents influence over an outcome. If there is a limited quantity of a product at a given time, the entity with more money will be able to pruchase more by offering a higher price. Although this example of economic power is probably the most obvious, it is also the one that many economists would object to, because it so clearly strikes at the notion that the market ensures a natural harmony of interests. Yet the fact remains that the entity with more money will have a higher budget line which will be tangent to a higher indifference curve, and will therefore have more utility than the entity with less money and a lower budget line. The power element becomes clearer as the object of purchase becomes more important for other objectives. While arms transfers are usually dependent more on strategic considerations and a poor country may receive arms gratis due to its strategic position, a country with more money, a better foreign exchange position, has a much easier time finding armaments. Oil is perhaps a better example. Small African countries with few opportunities for exports and therefore little foreign exchange, had a much more difficult time purchasing oil during the crises of the 1970's than the industrialized Western countries. This does not mean the small African countries had no power; certainly they had a small amount of foreign exchange or could borrow some, and could purchase some oil. Yet, their ability to affect the outcome, the purchase of oil, was vastly smaller than that of the industrialized West. In sum, inequality implies power.

Elasticities of demand and supply also affect the outcome or goal which is called price. To the extent that a country's demand for a product is elastic or can be made more elastic, it will gain a better price and more control over outcomes.

The ability of an economy to adapt technologically and organizationally will give it the ability to alter elasticities of supply and demand, and even change the position of the supply and demand curves. For example, the industrialized West has a greater ability to respond to reductions in oil supplies by switching to substitutes or innovating new oil-saving methods of production. Less developed countries are very restricted in this ability. Countries whose businesses are more able to adapt and who are better able to generate and use new technologies have economic power, because these technologies can alter supply and demand, and therefore price, which is an outcome. Caves and Jones demonstrate that if demand elasticities for a country's export product are very low, growth biased toward the nation's export industry could reduce real income by worsening the terms of trade.[54] This instrument of economic power can also be described as the ability to alter production functions through technological and organizational advance. Moreover, influence over the direction of change of production functions is held mostly by Western multinational corporations. A small developing country that wanted a multinational corporation but with a different production function [perhaps one using a greater proportion of labor] would have to bargain with it. The outcome, again, would depend on each parties use of the economic instruments of power. The corporation could exercise its freedom to abandon the attempted transaction, as could the prospective host country. Or the country could offer economic inducements. The corporation may be weak in that it has a need for markets.

The optimum tariff is another example of economic power. Under certain circumstances, the terms of trade effect of a tariff may be greater than import demand effect, raising the home country welfare. This may be negated by retaliation by the foreign country. Yet we have an example of an economic goal, increased welfare, being fought by alteration of the market structure, and the winner will be the one that can bring the most economic power resources to bear.

In a market system where private banks supply a large portion of financial capital, an entity's ability to gain access to this capital depends on its wealth. A country with more wealth or prospective wealth [money or productive resources] will be able to borrow more than a country with less wealth. Brazil and Mexico could borrow more money than Mozambique or Bangladesh. The US can borrow more money than any other country.

Externalities are another instance of the exercise of economic power. Transactions made within the US have resulted in acid rain that falls on Canada. This reduces Canada's welfare, but increases the welfare of those who benefit from the transactions that caused the acid rain. Canada has had difficulty in marshalling enough economic power resources to force the US to bear a greater share of the costs. US producers have so far been able to control the outcome because of their superior economic power.

Historical

Analytically, there are two ways for a country to increase relative share of world wealth. The first is to increase its own growth rate above that of the other countries. The second is to decrease the growth rate of others. The second strategy may have been appropriate in the mercantilist period of the Seventeenth century, which witnesses the Anglo-Dutch and Anglo-French trade wars. It is no longer appropriate in the late Twentieth century. It is clear that deliberate beggar-thy-neighbor policies reducing growth in the foreign economy, whether or not they succeed in reducing the relative world GNP share of the foreign country, will result in absolute reductions in home welfare. Reductions in home welfare will result in domestic political instability and possibly the fall of the sitting government or regime. It is much safer to pursue the first strategy.

By this analysis, the US is the country with the most economic power. In 1986, the US share of world GNP was 24.7%.[55] In 1980, the US share of world manufacturing production was 31.5%.[56] It is interesting to note that the US reached this position from a very low starting point. The US began with .1% world manufacturing production in 1750 and went to 44.8% in 1953. Britain started out at 1.9% in 1750 and went to 22.9% in 1880.[57] Bairoch's data also show that many of the ten leading countries in terms of total manufacturing output in 1860 were still on the top ten list in 1980.[58] Less developed countries did increase their share of world GNP from 1960 to 1980, but only from 11.1 to 14.8 percent.[59]

The common thesis uniting the various versions of Dependency theory is that somehow, the metropolitan countries regarded the development of the non-Western countries. This retardation is held to be due to the exercise of economic power by the metropolitan countries. Others deny the operation of power factors by pointing to the extensive growth that has taken place in the underdeveloped world. The East Asian NIC's are held to be a serious challenge to the dependency thesis.

With our new framework for analyzing economic power, we can see that there is an element of truth in both arguments, but neither provides a full explanation. In the domestic sphere, there exists a government authority with the ability to regulate market mechanisms in order to combat the problem of monopoly. Without action by such an authority, Marx's prediction that competition would eliminate all but the most efficient firms and culminate in monopoly would have been proved true, especially in the US before the enactment of the antitrust laws. No such authority exists in the international spher to prevent economic domination of the world economy by one or a few large countries. "Trust-Busting," if it is to be done at all, must be a joint and usually military effort of the threatened countries. Britain's coalition against Napoleon and the US-led coalitions against German and Japan are classic examples. No group of powers has been able to form a successful coalition against the US.

It seems, therefore, that somehow Britain, the US, and Europe gained an initial competitive advantage by being the first to industrialize. Various explanations have been put forth to answer the question of why these countries were first, and they need not detain us here. In principle, there is no reason why the industrial revolution could not have happened somewhere else, had non-Western societies been more oriented to science, had different social or political structures, invented more products and processes, or possessed some of the other qualities whose absence destined the industrial revolution to start in the West. The fact is, the West gained an initial competitive advantage and was able to keep it. The US share of world manufacturing production went from .1% in 1750 to 44.8% in 1953, while the share of India-Pakistan fell from 24.5% in 1750 to 1.4% in 1913,[60] although it then rose to 2.3% in 1980.[61] Certainly the growth rate of India and other developing countries has been relatively high in recent years. Between 1965 and 1973, India's average annual growth rate was 3.9% and between 1973-1983 it was 4.0%.[62]

The non-Western countries probably would not have been better off had they stayed out of the international market economy. To the extent that social and political factors were responsible for the non-Western failure to industrialize first, it is unlikely that they would have begun the process of industrialization earlier had they been able to opt out of the international market economy set up by European imperialism.

An analogy can be made at the level of the individual. In primitive societies, the introduction of money and a market economy based on a division of labor will destroy the self-sufficiency of subsistence agriculture. Governments in developing countries, in the name of "economic development," will take measures to convert the subsistence economy to a market economy. The object is to enhance national power by increasing the resources under state control. Labor freed from the subsistence economy is more easily controlled, and it provides new sources of tax revenue and a larger pool of military draftees for the central government. Control of the peasants by making them dependent on markets is much easier than relying on coercion, or agreements with tribal chiefs that would dilute the central government's power. Nyerere's policy of villagization in Tanzania is a good example of this. The policy was resisted by the peasants who rightly saw that dependence on the market would remove the economic security provided by subsistence farming.[63] On the other hand, once people are brought into a market economy, some will be successful in advancing their own economic power through the new system. In less developed countries, a new middle class can quickly emerge and become a source of political instability, as it did in the case of Iran.

The same argument holds true in the international system. A policy of autarky would not, in all likelihood, have advanced the prospects of the less developed countries. They may have been able to retain a degree of economic independence and self-sufficiency for a time. Military power, however, was rapidly becoming a function of industrialization. Any country which did not industrialize would have been vulnerable to military pressure, and indeed, this was the fate of Africa in the late Nineteenth century. The non-Western countries really had no choice but to participate in the international market economy after decolonization. Otherwise, they never would have a chance of catching up to the West in terms of the share of world wealth and economic power. Indeed, they have made progress as illustrated above, but the developed countries still produce over 80% of world GNP and manufactures.

4. Power and Market Structures and Institutions

Property Rights

Property Rights are one of the most ubiquitous manifestations of economic power in domestic society. Indeed, a market economy would be impossible without property rights. Sovereignty is the international equivalent of property rights in the international system, although it can only be enforced through coercive power or by the help of another sovereign country which backs it by its coercive power.

Sovereignty and Geography

Sovereignty is defined over territory. The accidents of geography ensure that some countries gain more economic advantages from their peculiar territorial circumstances than other countries. These accidents of geography give these countries more control over economic outcomes, Panama, for example, benefits from the revenue of the Panama Canal, and Egypt benefits from the revenue of the Suez Canal. Countries have different endowments of natural resources, which in turn give them varying degrees of advantage on international markets. The oil exporting countries were able to exercise this power to a remarkable degree in the 1970's. Saudi Arabia, by virtue of its large share of OPEC oil reserves and productive capacity, used this instrument of economic power to induce OPEC to moderate its price and production policy, because it saw this to be in its own economic interests.

Access to Internal Markets

Regulation of foreign access to internal markets is another instrument of economic power conferred by sovereignty. Susan Strange contends that "the rules made by the United States -- and made in response for the most part to domestic political pressures and domestic economic and social needs -- are almost always much the most important set of national rules affecting operators in international markets."[64] She cites "interest-rate policies pursued by the Federal Reserve Board, . . . air transport rulings given by the Civil Aeronautics Board, . . . stock market regulations enforce by the Securities Exchange Commission," and US anti-trust laws.[65] The fact that the US represents fully one-third of the world's industrial markets gives it a great deal of economic bargaining power.[66] A perceived need to gain a foothold in the US market was a major motivation by the premium offer made by the Japanese corporation Bridgestone for Firestone.[67] The Wall Street Journal quotes Donald Straszheim, president of Merrill Lynch Economics as saying, "Basically anybody in any industry has to be a player in the United States if they want to be a big player in the world."[68] The ten largest Japanese acquisitions and investments in the US since 1987 total $8.1 billion.[69] The economic power enabling the Japanese to do this stems from "wealth generated by years of massive trade surpluses and a strong currency," and "the unique structure of Japanese industry that combines huge industrial firms in close alliances with major banks."[70]

Money

Money has always been one of the most important economic institutions in the international economy. Its form and regulation have far reaching effects on the level of world economic activity and the distribution of wealth.

When precious metals were the form of money used in international trade, the countries which controlled the greatest share of mines possessed a lever of economic power with which to affect economic outcomes not possessed by other countries. Spain and Portugal during the Fifteenth and Sixteenth centuries effectively determined the Western world's money supply because of their access to sources in Asia and America. Undoubtedly the large influx of gold was in large part responsible for the inflation of that period, and that a large part of the gold was used in unproductive wars. Yet fighting a war can be represented as a want on an community indifference curve, and economists are loathe to criticize cigarettes or other frivolous patterns of consumption as irrational; cigarettes are calculated in the GNP. Since in the evaluation of the benefits from trade economists usually discount the fact that a change in the distribution of income will change the position of the community indifference curve, we can also discount it here and treat the Habsburg community indifference curve as given. Keeping this in mind, these gold inflows contributed significantly to Habsburg utility [military power]. "In the Lepanto campaign [1571], it was reckoned that the maintenance of the Christian fleets and soldiers would cost over 4 million ducats annually." The "income from American mines -- around 2 million ducats a year by the 1580s compared with one-tenth of that four decades earlier -- rescued the crown's finances, and credit, temporarily; but the armada of 1588 cost 10 million ducats and its sad fate represented a financial as well as a naval disaster."[71] Without access to the supply of gold, the Habsburg would never have been able to purchase as many goods and services [soldiers, sailors, and military equipment] that they did, and their utility [as indicated by their revealed preference] would have been lower.

Over time, bills of exchange began to displace bullion as the main form of international currency, and Amsterdam was the center of much of this activity. The "financial revolution" in England, encompassing the establishment of the Bank of England and the transference of responsibility for public debt from the crown to Parliament, enabled the English government to have much easier access to the Amsterdam capital markets than any other foreign governments, especially the French. The British could get loans at relatively low interest rates. This financial advantage made a critical contribution to the British war efforts against France in the late Eighteenth and early Nineteenth century.[72] Britain's superior financial organization was a critical contribution to its economic power that enabled it to control outcomes [achieve goals, enhance utility by purchasing goods and services needed for the prosecution of war] better than the French.

The position of a country's currency may confer it special advantages or disadvantages. Susan Strange has classified currencies into four categories: master currency, top currency, negotiated currency, and a neutral currency. A master currency "occurs when an imperial or hegemonial state imposes the use of its currency on other political entities, whether they are allied states, dependent protectorates, or colonies."[73] A top currency is the "favorite for international monetary transactions, most often and most widely used for a great variety of monetary purposes; it is the favorite of the world market." Although political factors may be important, "the deciding factor, compelling confidence in the use of a Top Currency, is necessarily economic."[74] The dollar in the first 12 or 15 years after World War II is an example of this since "there was no need, then, for special inducements or hidden coercion to persuade all the countries of Western Europe, of Central and South America and of the Afro-Asian bloc outside the sterling area and franc zone to hold dollars or to accept them without question as a means of payment."[75] A negotiated currency, in contrast, is "characterized by the need of the issuing state to bargain or negotiate diplomatically with the users about the terms and conditions of its use," and is usually a master currency or top currency on the decline.[76] Sterling in the postwar period and the dollar since the 1960's are current examples. The main distinction of a negotiated currency is that the issuing state must issue inducements for others to hold it as a reserve currency.[77] Neutral Currencies "originate in the strong economic position of the issuing state."[78] These curencies are used widely in international transactions and held often as private reserve currencies, but the issuing government does not offer special inducements for other countries to hold it as a reserve currency. Strange cities Swissfrancs and German Marks as examples; were she writing her book today, she would probably also include the Yen. Strange adds a caveat that "the reader will have remarked that in this classification neither the dollar nor sterling comes exclusively into one category of international currencies. The dollar is a Neutral Currency, especially in its Eurodollar form, and to a lesser degree so is sterling in the form of Eurosterling. The dollar is also a Negotiated Currency in the outer dollar area where military, financial, and broad economic benefits aid and proference are offered to governments holding dollars as an important part of their monetary reserves.[79]

The country whose currency is held by other countries as a reserve currency also gains special economic advantages and disadvantages. The disadvantage is that it may be difficult to exercise control over the use of foreigners of their reserves, which may have adverse effects on the home economy. This was especially true of Britain, whose small size in relation to the rest of the world detracted from its ability to influence outcomes [economic power]. In the large country case, however, the reserve currency country can use its status to reduce the need for adjustment or avoid it completely. The US seemingly has the power to continue its balance of payments deficits indefinitely. DeGaulle claimed that the US abuse of its reserve currency status was exporting inflation to Europe. Moreover, US deficits were seen as involuntary loans financing the expansion of US overseas business.[80] The power of the US in the IMF limited the creation of additional liquidity through SDRs. David Calleo's interpretation is that "the US was not running deficits to provide liquidity to others, but as a byproduct of pursuing its domestic and foreign ambitions. As long as the United States held the monetary hegemony involved in the reserve currency role, it could be certain that ample liquidity would be available to finance its foreign positions. Though the United States was quite happy to use the IMF as a gloss over its monetary hegemony, it had no intention of ceding its real power over the world money supply."[81] The US had the power to determine the continuance of the gold-exchange standard, since its currency was the standard. The Europeans were powerless to stop the US from abandoning the standard. The dollar was devalued, and the value of the reserves held by European and other central banks was immediately depreciated. The US definitely had the greater ability to achieve its goals and control outcomes from the Europeans in this situation. Historical precedent and the relative size of the US economy ensured that the dollar retained a central role in the subsequent period of floating exchange rates.

The IMF in regulating the worlds monetary and payments system reflects the power wielded by the US and West Europe. This is one of the most critical market institutions in the international economy. "The Fund is controlled by its member states in proportion to the size of their quotas. It is thus ruled firmly by the rich countries."[82] Quotas were set by the founding agreement, and adjustments in quotas require an 80% majority. Since the US has a quota of 23% [in 1974].[83] It has a veto over quota adjustment. US leadership has ensured that the burden of adjustment falls on debtors, not creditors. The role of its currency, however, means that the US has so far been exempt in recent times with its new status as a debtor.

GATT

Here, we find a lacking in economic power for the countries that are non members, like the East Bloc. They are not able to gain advantages accruing from MFN status. Until recently, however, this has been a matter of policy by the Soviet Union and its East Bloc allies, who saw greater advantages in an autarkic system.

Multinational Firms

Sometimes it is groups of large multinational firms rather than governments which regulate access to markets. "In quite a few international markets the most important rules regarding access, whether to resources or to markets, will be those made by a cartel or informally worked out within a small oligopolistic group of large multinational enterprises -- like aluminum companies, for example. The objections raised in UNCTAD against the political framework around the international shipping business are directed not against an intergovernmental body, or against any national government , but against the shipping conferences of the operators."[84]

Policy Instruments

Keynsian and other macroeconomic models such as IS-LM-FE designed to explain the balance of payments, interest rates, and output enbody economic power, although it is not usually recognized as such. These types of models are often used to analyze the effect of fiscal policy, monetary policy, capital mobility, and flexibility of exchange rates on other macro variables. The use of these policy instruments will have effects on inflation, employment, the distribution of income, and other economic outcomes, therefore they can be classified as instruments of power. In the large country case, their use will have effects on the economies of other countries.

Conclusion

We can now examine some of the common neoclassical observations about the nature of a market economy. First is the princple that the market economy is based on choice and consumer sovereignty. This is true enough as far as it goes, but it should be clear by now that the ability to choose is dependent on economic power: share of wealth, ownership of the means of production, and ability to influence market structures. The problem of scarcity combined with inequalities of influence over market structures ensures the existence of economic power. Moreover, conventional economics takes the market system as given. While this may be desirable ideologically in order to prevent people from thinking about alternatives, this assumption is analytically invalid.

NOTES

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4. Rosecrance, p. ix.
5. Rosecrence, p. ix.
6. Rosecrance, p. ix.
7. Rosecrance, p. xi.
8. Rosecrance, pp. 13-14.
9. Rosecrance, p. 14.
10. Rosecrance, p. 17.
11. Rosecrance, p. 16.
12. Rosecrance, p. xi.
13. Rosecrance, p. 20.
14. Rosecrance, p. 29.
15. Marjolis, "Asia Worries about Gahndhi's Military Complex,"Wall Street Journal, May 2, 1988, p. 19.
16. Rosecrance, p. 30.
17. Rosecrance, p. 209. Rosecrance uses the term "Third World" here, not me.
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27. Baldin, 1983, p. 5.
28. Cline, p. 143.

29. David Baldwin, Economic Statecraft, [Princeton, N. J.: Princeton University Press, 1985], pp. 20-21.
30. David Baldwin, 1983 p. 34.
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32. Susan Strange, "What is Economic Power and Who Has It?" International Journal, no. 30, 1974, p. 210.
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34. Klaus Knorr, Power and Wealth, [New York: Basic Books, 1973].
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36. Jeffrey Garten, "Is American Decline Inevitable?" World Policy Journal, Winter 1987-88. This essay reviews Robert Gilpin's The Political Economy of International Relations; Paul Kennedy's Rise and Fall of the Great Powers; Peter Peterson's article "The Morning After" in the Atlantic Monthly, October 1987; David Calleo's Beyond American Hegemony: The Future of the Western Alliance; Ellen Frost's For Richer, For Poorer: The New US-Japan Relationship; and Walter Russell Mead's Mortal Spendor: The American Empire in Transition.
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